APPENDIX

[*Vide* answer to starred question No. 188 on page 3.]

The Finance Commission's recommendations cover (*a*) the devolution of Central Taxes such as Income-tax, Excise and Estate Duties, (*b*) the grants-in-aid to be given to States to balance their revenue Budgets.

2. The Third Finance Commission's recommendations in regard to devolution of taxes compare with our request to them as shown in the following table :—

Existing percentage and the system of distribution now in force.	*Suggestions made by this Government.*	*Recommendations of the Finance Commission.*	*Remarks.*
(1)	(2)	(3)	(4)
1. *Income-tax—*			
8·40 per cent (The existing divisible pool is 60 per cent of the net collection.)	This State had suggested that: (i) the percentage of the share should be increased from 60 per cent; (ii) the centre should continue to have an interest in the collection of income-tax; (iii) the basis of allocation of income-tax should continue to be 90 per cent of population and 10 per cent of collection.	8·13 per cent (i) The divisible pool has been enlarged from 60 per cent to 66⅔ per cent; (ii) The Commission have also agreed that centre should continue to have an interest in the collection of income-tax; (iii) The basis of allocation of income-tax should be 80 per cent of population and 20 per cent of collection.	This does not affect the State adversely. We are getting more than what we would have got if the previous yard-stick had been continued.
2. *Union Excise Duties—*			
7·56 per cent ..	All excisable commodities should be brought into the divisible pool of Union Excise duties. The existing share of 25 per cent should be retained.	6·08 per cent. In deciding the percentage, the Commission have taken into consideration the relative financial resources of the State, disparity in the levels of development and the percentage of Scheduled Castes, Scheduled Tribes, etc. Hence, there is reduction. But the Commission have recommended the inclusion of 35 commodities (all commodities, which yield more than Rs. 50 lakhs per annum). This makes our share larger in absolute terms.	The inclusion of all major excisable duties will secure us a revenue which is bound to grow with the expansion of production in the Third Plan. Because of the change in the basis of allocation as well as the reduced percentage of our population, our share is only 6·08 per cent as against 7·56 per cent in force now. The Commission's basis of weightage for factors other than population is controversial, since such factors have already been reckoned with in drawing up the Plans of the States and the Central assistance therefor and should not therefore figure again in the Finance Commission's assessment.

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Existing percentage and the system of distribution now in force.	*Suggestions made by this Government.*	*Recommendations of the Finance Commission.*	*R*
(1)	(2)	(3)	(4)
3· *Additional Excise Duties*—			
7·74 per cent ..	The existing basis of distribution should be continued.	9·00 per cent. The Finance Commission have taken into account the yield of sales-tax in the State as an additional factor. Consequently, as there is growth in sales-tax, the share of Madras has increased from 7·74 per cent to 9·00 per cent.	....
4. *Estate Duty*—			
8·40 per cent (Based on the collection and population).	The existing basis of distribution to be continued.	7·8 per cent. Based on the collection and population.	....

Grants-in-aid.

3. Besides the devolution of taxes, the Finance Commission has made recommendations in regard to making certain grants available to the States. The first category of grants recommended is a special purpose grant for the improvement of communications. This has been recommended for 10 States. This State is not one of them, presumably for the reason that Finance Commission considered our roads to be in a fair condition. It is possible to take the view that improvement of roads is necessarily a part of the plan and in fixing the size of the plan for roads, backwardness has already been taken into account and that a special grant of this kind is not justified. The Government of India have, however, accepted the recommendation of the Commission notwithstanding a minute of dissent in this regard.

4. The second category of grants-in-aid recommended by the Finance Commission and accepted by the Central Government relates to the amount needed to balance non-plan revenue expenditure. On this basis, we have been recommended an *ad hoc* grant of Rs. 3 crores per annum. We are one of the ten States which have received *ad hoc* grants as tabulated below :—

State.	*Grants-in-aid accepted by Government of India.*
(1)	(2)
	(RUPEES IN CRORES.)
Andhra Pradesh	9·00
Assam	5·25
Gujarat	4·25
Jammu and Kashmir	1·50
Kerala	5·50
Madhya Pradesh	1·25
Madras	3·00
Mysore	6·25
Orissa	11·50
Rajasthan	4·50

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The States of Maharashtra, Uttar Pradesh, Bihar, Punjab and West Bengal have not received any *ad hoc* grant under the award of this Finance Commission. Under the award of the Second Finance Commission, this State was also not in receipt of any *ad hoc* grant. To this extent, the Third Finance Commission's award may be considered to be as not unfavourable to the State.

5. The Third Finance Commission had made a further recommendation regarding grants to balance the plan revenue expenditure. Their approach was to find out the gap in the plan expenditure on revenue account, deduct the additional taxation which the State is expected to levy and provide lump-sum grants to meet three-fourths of the gap. On this basis, the Third Finance Commission recommended annual *ad hoc* grant to various States. The Government of India have not accepted this recommendation for the reason that the present procedures for releasing Central assistance by the Planning Commission would make available the necessary grants for plan schemes. The non-acceptance of this recommendation does not affect the State adversely, although if a lump-sum grant had been made available, the State Government would have found it easier to budget for its plan schemes with less uncertainty.

The net impact of the Third Finance Commission's Recommendations.

6. The Government of India have intimated the estimates of revenue for 1962–63 which will fall to our share as a result of the Third Finance Commission's recommendations. If the Second Finance Commission's recommendations had continued in force, our share would have been as shown in column (2) of the following table :—

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	Our share in 1962–63 if the recommendations of the Second Finance Commission had continued to be in force.	*Budget Estimate for 1962–63 as intimated by Government of India.*
(1)	(2) *	(3)
	(RUPEES IN LAKHS.)	
Income-tax	6,81	7,29
Share of Union Excises	3,20	4,44
Tax on Railway fares	90	81
Additional Excise duties	3,45	3,49
Estate duty	30	38
Grant in lieu of losses on account of changes in Company taxation.	2,26	..
***Ad hoc* Grant**	..	3,00
	16,92	19,41

The net improvement to the State as a result of the Third Finance Commission's recommendations is roughly Rs. 2·5 crores for 1962–63. Over a period of 4 years, it is likely to be more than Rs. 10 crores.

* This proceeds on the basis of the latest trend of actuals.